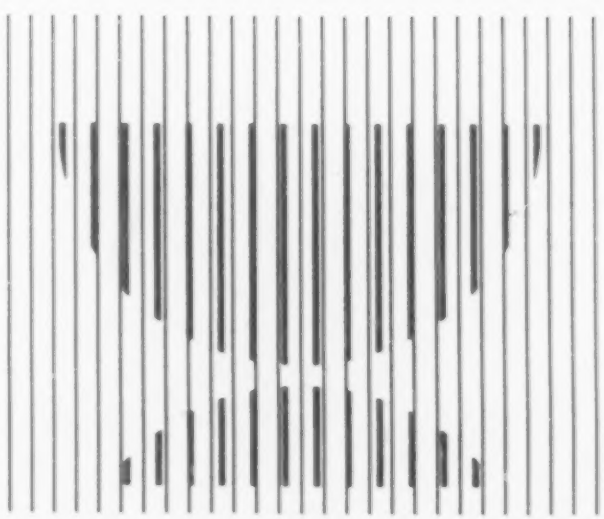
CBO STAFF MEMORANDUM

BUDGET PROJECTIONS THROUGH 2001

October 1991



CONGRESSIONAL BUDGET OFFICE
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WASHINGTON, D.C. 20515

J930-35

Twice a year the Congressional Budget Office (CBO) prepares estimates of federal spending and revenues for the current fiscal year, as well as a baseline projection of spending and revenues for the following five years. CBO's most recent projections were released in August 1991, and cover fiscal years 1992 through 1996. The attached tables extend those projections for an additional five years, through 2001.

ECONOMIC ASSUMPTIONS

Table 1 summarizes the economic assumptions underlying the budget projections. CBO projects that growth in real gross national product (GNP) will average 2.7 percent a year through 2001, reflecting an average rate of growth of 2.8 percent over the 1991-1996 period and 2.5 percent in the 1997-2001 period. The more rapid growth in the initial years reflects recovery from the recent recession. CBO assumes that after 1996, real GNP will grow at the same rate as potential GNP. Because projected and potential growth are equal, implying little upward or downward pressure on the inflation rate, inflation is projected to remain steady at the 1996 rate over the long term. For the same reason, interest rates are also unchanged after 1996. CBO anticipates that corporate profits will grow more slowly than GNP, continuing a long trend.

CBO's projection of potential GNP depends on projected growth in labor, capital, and total factor productivity.[1] The projections for these components of growth in potential GNP for the 1997-2001 period continue the assumptions used for 1991 through 1996. Growth in the labor force follows the mid-range projection made by the Bureau of Labor Statistics; it averages 1.3 percent per year in the 1991-1996 period and 1.2 percent in the 1997-2001 period. Growth in total factor productivity continues at the trend rate of the 1980s, or about 0.7 percent. CBO projects that the capital stock will grow slightly faster in the 1997-2001 period than during the earlier years of the projection because of a slightly higher rate of national saving.

BUDGET PROJECTIONS

Table 2 summarizes the baseline budget projections. They assume that the amount of discretionary spending remains within the limits established in the Budget Enforcement Act through 1995 and keeps pace with inflation in later years. For tax revenues and mandatory spending, the baseline generally assumes that laws now on the statute books will continue. Excise taxes dedicated to trust funds are assumed to be extended beyond statutory expiration dates. Other taxes are assumed to expire on schedule.

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1. Total factor productivity is the amount by which the growth of output exceeds the growth of capital and labor inputs. It largely measures the improvement in technology.

Excluding deposit insurance, the federal deficit is projected to rise from $200 billion (or 2.6 percent of GNP) in 1996 to $313 billion (3.1 percent of GNP) in 2001. The large year-to-year swings in deposit insurance spending and receipts are generally excluded from measures of fiscal policy, because these changes do not represent changes in the federal government's effect on the economy and have little effect on interest rates.

Revenues are projected to decline from 19.2 percent of GNP in 1996 to 18.9 percent of GNP in 2001 (see Table 3). (Extension of tax provisions that are scheduled to expire would increase revenues in the later years by only about 0.1 percent of GNP.) Outlays excluding deposit insurance rise only slightly--from 21.9 percent of GNP in 1996 to 22.0 percent of GNP in 2001. Within a relatively constant total, however, discretionary spending continues its long decline, shrinking to 6.8 percent of GNP by 2001, while mandatory spending rises. Table 4 provides details about the components of mandatory spending in the baseline projections.

Table 5 shows an alternative budget projection in which discretionary spending is not limited by the caps in the Budget Enforcement Act but grows at the rate of inflation after 1992. In this path, discretionary spending is higher by an estimated $16 billion in 1993, $38 billion in 1994, $52 billion in 1995, and greater amounts in later years. (The precise amount of these differences will depend on the final level and distribution of appropriations for 1992.) As a result of the higher level of discretionary spending, interest costs on the federal debt are also greater. By 2001 the deficit excluding deposit insurance in this alternative will reach $418 billion, or 4.1 percent of GNP.

While budget projections are always uncertain, the degree of uncertainty increases as the time horizon expands. The long-run projections depend critically on assumptions about the performance of the economy, the costs and utilization of medical care, losses from deposit insurance, and a myriad of other factors, none of which can be foreseen precisely. Therefore, the figures for the 1997-2001 period must be used with particular care.

TABLE 1. ECONOMIC ASSUMPTIONS (By fiscal year)

	Forecast		Projection								
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Nominal GNP (Billions of dollars)	5591	5939	6315	6699	7106	7538	7995	8470	8972	9506	10071
Nominal GNP (Percentage change)	3.4	6.2	6.3	6.1	6.1	6.1	6.1	5.9	5.9	5.9	6.0
Real GNP (Percentage Change)	-0.3	2.9	2.9	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.5
Implicit GNP Deflator (Percentage Change)	3.7	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Fixed-Weight GNP Price Index (Percentage Change)	4.3	3.6	3.7	3.7	3.7	3.7	3.7	3.8	3.7	3.7	3.7
CPI-U (Percentage Change)	5.1	3.6	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Unemployment Rate (Percentage)	6.5	6.3	6.0	5.8	5.7	5.6	5.5	5.5	5.5	5.5	5.5
Three-Month Treasury Bill Rate (Percent)	6.1	6.1	6.2	6.1	5.9	5.8	5.8	5.8	5.8	5.8	5.8
Ten-Year Treasury Note Rate (Percent)	8.2	8.3	8.0	7.8	7.5	7.3	7.3	7.3	7.3	7.3	7.3
Tax Base (Percentage of GNP)											
Corporate Profits	5.3	6.1	6.2	6.1	6.0	5.8	5.7	5.5	5.3	5.2	5.0
Other Taxable Income	21.9	21.7	21.8	21.8	21.7	21.5	21.5	21.5	21.5	21.5	21.5
Wage and Salary Disbursements	49.5	49.1	49.1	49.1	49.2	49.3	49.3	49.3	49.3	49.3	49.3
Total	76.6	76.9	77.1	77.0	76.8	76.7	76.5	76.3	76.1	75.9	75.7

SOURCE: Congressional Budget Office.

NOTE: CPI-U is the consumer price index for all urban consumers.

TABLE 2. CBO BASELINE BUDGET PROJECTIONS (By fiscal year)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
In Billions of Dollars											
Revenues	1,058	1,141	1,223	1,299	1,377	1,449	1,532	1,618	1,707	1,802	1,902
On-budget	764	830	891	946	1,000	1,049	1,107	1,167	1,230	1,296	1,366
Off-budget	294	312	333	354	376	400	425	450	477	506	537
Outlays											
Defense discretionary	322	314	295	a	a	a	a	a	a	a	a
International discretionary	20	20	21	a	a	a	a	a	a	a	a
Domestic discretionary	197	215	225	a	a	a	a	a	a	a	a
Subtotal	539	549	541	539	544	563	585	608	633	658	684
Mandatory spending	638	694	740	787	839	895	962	1,032	1,111	1,196	1,286
Deposit insurance	77	115	58	32	-32	-44	-31	-23	-16	-13	-10
Net interest	196	208	229	246	257	266	278	291	306	323	342
Offsetting receipts	-113	-63	-66	-70	-73	-75	-80	-84	-89	-93	-97
Total	1,337	1,504	1,501	1,534	1,534	1,605	1,714	1,825	1,945	2,071	2,205
On-budget	1,096	1,255	1,239	1,263	1,252	1,311	1,409	1,508	1,616	1,731	1,853
Off-budget	241	249	262	270	281	294	305	317	329	340	352
Deficit (-) or Surplus	-279	-362	-278	-234	-157	-156	-182	-208	-238	-269	-303
On-budget	-331	-425	-348	-318	-252	-262	-301	-341	-387	-435	-487
Off-budget	52	63	70	83	95	106	120	133	149	166	185
Deficit Excluding Deposit Insurance and Desert Storm Contributions	-250	-248	-220	-202	-189	-200	-213	-230	-254	-282	-313
As a Percentage of GNP											
Revenues	18.9	19.2	19.4	19.4	19.4	19.2	19.2	19.1	19.0	19.0	18.9
On-budget	13.7	14.0	14.1	14.1	14.1	13.9	13.9	13.8	13.7	13.6	13.6
Off-budget	5.3	5.2	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Outlays											
Defense discretionary	5.8	5.3	4.7	a	a	a	a	a	a	a	a
International discretionary	0.3	0.3	0.3	a	a	a	a	a	a	a	a
Domestic discretionary	3.5	3.6	3.6	a	a	a	a	a	a	a	a
Subtotal	9.6	9.2	8.6	8.0	7.7	7.5	7.3	7.2	7.1	6.9	6.8
Mandatory spending	11.4	11.7	11.7	11.7	11.8	11.9	12.0	12.2	12.4	12.6	12.8
Deposit insurance	1.4	1.9	0.9	0.5	-0.5	-0.6	-0.4	-0.3	-0.2	-0.1	-0.1
Net interest	3.5	3.5	3.6	3.7	3.6	3.5	3.5	3.4	3.4	3.4	3.4
Offsetting receipts	-2.0	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Total	23.9	25.3	23.8	22.9	21.6	21.3	21.4	21.6	21.7	21.8	21.9
On-budget	19.6	21.1	19.6	18.9	17.6	17.4	17.6	17.8	18.0	18.2	18.4
Off-budget	4.3	4.2	4.2	4.0	4.0	3.9	3.8	3.7	3.7	3.6	3.5
Deficit (-) or Surplus	-5.0	-6.1	-4.4	-3.5	-2.2	-2.1	-2.3	-2.5	-2.6	-2.8	-3.0
On-budget	-5.9	-7.2	-5.5	-4.7	-3.5	-3.5	-3.8	-4.0	-4.3	-4.6	-4.8
Off-budget	0.9	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.7	1.8
Deficit Excluding Deposit Insurance and Desert Storm Contributions	-4.5	-4.2	-3.5	-3.0	-2.7	-2.6	-2.7	-2.7	-2.8	-3.0	-3.1

SOURCE: Congressional Budget Office.

a. A single cap applies to the three categories of discretionary spending--defense, international, and domestic--in 1994 and 1995. The assumed caps for fiscal years 1996 through 2001 are CBO extrapolations.

TABLE 3. REVENUE PROJECTIONS BY SOURCE (By fiscal year)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
					In Billions of Dollars						
Individual Income	471	510	548	587	628	667	711	757	805	858	915
Corporate Income	98	105	114	118	121	124	127	128	129	129	128
Social Insurance	397	424	454	483	513	543	576	610	645	683	724
OASDI (Off-budget)	294	312	333	354	376	400	425	450	477	506	536
HI (On-budget)	73	81	86	92	98	104	110	117	124	132	140
Other (On-budget)	30	32	35	38	39	39	41	42	44	46	47
Excises	43	49	52	53	55	52	53	54	55	55	56
Estate & Gift	11	12	12	12	13	14	14	15	16	17	17
Customs Duties	16	17	18	19	21	22	23	24	25	26	27
Miscellaneous: Fed	19	21	22	23	23	24	25	27	28	30	31
Miscellaneous: Other	3	3	4	4	4	3	4	4	4	4	5
Total Revenues	1058	1141	1223	1299	1377	1449	1532	1618	1707	1802	1902
On-budget Revenues	764	830	891	946	1000	1049	1107	1167	1230	1296	1366
Off-budget Revenues	294	312	333	354	376	400	425	450	477	506	536
					As a Percentage of GNP						
Individual Income	8.4	8.6	8.7	8.8	8.8	8.8	8.9	8.9	9.0	9.0	9.1
Corporate Income	1.8	1.8	1.8	1.8	1.7	1.6	1.6	1.5	1.4	1.4	1.3
Social Insurance	7.1	7.1	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2
OASDI (Off-budget)	5.3	5.2	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
HI (On-budget)	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other (On-budget)	0.5	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Excises	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.6
Estate & Gift	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Customs Duties	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Miscellaneous: Fed	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Miscellaneous: Other	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenues	18.9	19.2	19.4	19.4	19.4	19.2	19.2	19.1	19.0	19.0	18.9
On-budget Revenues	13.7	14.0	14.1	14.1	14.1	13.9	13.9	13.8	13.7	13.6	13.6
Off-budget Revenues	5.3	5.2	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Fiscal Year GNP	5591	5939	6315	6699	7106	7538	7995	8470	8972	9506	10071

SOURCE: Congressional Budget Office

TABLE 4. ENTITLEMENTS AND OTHER MANDATORY SPENDING (By fiscal year)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
						In Billions of Dollars					
Social Security	266	284	301	319	337	357	377	399	422	446	472
Medicaid	52	62	71	81	92	105	118	133	150	168	189
Medicare	114	128	141	156	174	194	217	240	267	298	328
Civil Service Retirement	33	35	36	38	40	44	47	49	52	55	59
Military Retirement	23	24	26	27	29	30	32	34	36	38	40
Other	149	162	166	165	166	165	171	178	184	191	198
Total	638	694	740	787	839	895	962	1,032	1,111	1,196	1,286
						As a Percentage of GNP					
Social Security	4.8	4.8	4.8	4.8	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Medicaid	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9
Medicare	2.0	2.1	2.2	2.3	2.4	2.6	2.7	2.8	3.0	3.1	3.3
Civil Service Retirement	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Military Retirement	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other	2.7	2.7	2.6	2.5	2.3	2.2	2.1	2.1	2.1	2.0	2.0
Total	11.4	11.7	11.7	11.7	11.8	11.9	12.0	12.2	12.4	12.6	12.8

SOURCE: Congressional Budget Office.

TABLE 5. CBO BUDGET PROJECTIONS WITH NO DISCRETIONARY SPENDING CAPS AFTER 1992 (By fiscal year)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
In Billions of Dollars											
Revenues	1,058	1,141	1,223	1,299	1,377	1,449	1,532	1,618	1,707	1,802	1,902
On-budget	764	830	891	946	1,000	1,049	1,107	1,167	1,230	1,296	1,366
Off-budget	294	312	333	354	376	400	425	450	477	506	537
Outlays											
Defense discretionary	322	314	306	316	323	333	344	359	374	390	407
International discretionary	20	20	21	22	23	24	25	26	27	28	29
Domestic discretionary	197	215	229	239	250	261	271	281	291	303	314
Subtotal	539	549	556	577	596	617	640	666	693	721	750
Mandatory spending	638	694	740	787	839	895	962	1,032	1,111	1,196	1,286
Deposit insurance	77	115	58	32	-32	-44	-31	-23	-16	-13	-10
Net interest	196	208	230	249	263	277	293	311	332	355	381
Offsetting receipts	-113	-63	-66	-70	-73	-75	-80	-84	-89	-93	-97
Total	1,337	1,504	1,517	1,575	1,592	1,670	1,784	1,903	2,030	2,166	2,310
On-budget	1,096	1,255	1,255	1,304	1,311	1,376	1,479	1,586	1,702	1,826	1,958
Off-budget	241	249	262	270	281	294	305	317	329	340	352
Deficit (-) or Surplus	-279	-362	-294	-275	-215	-221	-252	-285	-323	-364	-407
On-budget	-331	-425	-364	-359	-310	-327	-371	-419	-472	-530	-592
Off-budget	52	63	70	83	95	106	120	133	149	166	185
Deficit Excluding Deposit Insurance and Desert Storm Contributions	-250	-248	-236	-244	-248	-265	-283	-308	-340	-377	-418
As a Percentage of GNP											
Revenues	18.9	19.2	19.4	19.4	19.4	19.2	19.2	19.1	19.0	19.0	18.9
On-budget	13.7	14.0	14.1	14.1	14.1	13.9	13.9	13.8	13.7	13.6	13.6
Off-budget	5.3	5.2	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Outlays											
Defense discretionary	5.8	5.3	4.9	4.7	4.5	4.4	4.3	4.2	4.2	4.1	4.0
International discretionary	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Domestic discretionary	3.5	3.6	3.6	3.6	3.5	3.5	3.4	3.3	3.2	3.2	3.1
Subtotal	9.6	9.2	8.8	8.6	8.4	8.2	8.0	7.9	7.7	7.6	7.4
Mandatory spending	11.4	11.7	11.7	11.7	11.8	11.9	12.0	12.2	12.4	12.6	12.8
Deposit insurance	1.4	1.9	0.9	0.5	-0.5	-0.6	-0.4	-0.3	-0.2	-0.1	-0.1
Net interest	3.5	3.5	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.8
Offsetting receipts	-2.0	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Total	23.9	25.3	24.0	23.5	22.4	22.2	22.3	22.5	22.6	22.8	22.9
On-budget	19.6	21.1	19.9	19.5	18.4	18.3	18.5	18.7	19.0	19.2	19.4
Off-budget	4.3	4.2	4.2	4.0	4.0	3.9	3.8	3.7	3.7	3.6	3.5
Deficit (-) or Surplus	-5.0	-6.1	-4.7	-4.1	-3.0	-2.9	-3.1	-3.4	-3.6	-3.8	-4.0
On-budget	-5.9	-7.2	-5.8	-5.4	-4.4	-4.3	-4.6	-4.9	-5.3	-5.6	-5.9
Off-budget	0.9	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.7	1.8
Deficit Excluding Deposit Insurance and Desert Storm Contributions	-4.5	-4.2	-3.7	-3.6	-3.5	-3.5	-3.5	-3.6	-3.8	-4.0	-4.1

SOURCE: Congressional Budget Office.